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ANFIELD WEALTH MANAGEMENT

October 2018 Newsletter

What Happened?

- October was one of the worst months for stocks in the last few years. We saw a resurgence of volatility due to rising interest rates, trade war tensions, tariffs, and earnings that may have hit their peak levels.

- NASDAQ tech stocks, which had led the market higher for the past few years, were hit the hardest. The NASDAQ had its biggest monthly drop since November 2008 and its largest single day drop in 7 years. Some of the biggest tech names, the so-called FANG stocks, were hit the hardest with Amazon and Netflix down around 20%, and Facebook, Google, and Apple down around 10%.

Index	October	YTD 2018
S&P 500	-6.9%	1.4%
Dow Jones	-5.1%	1.6%
NASDAQ	-9.2%	5.8%
Russell 2000	-10.9%	-1.6%
EAFE	-8.1%	-9.3%
Emerging Markets	-8.7%	-16.0%
Aggregate Bonds	-0.8%	-2.4%
Gold	2.3%	-6.6%

Data from Morningstar as of 10/31/2018

- The S&P 500 had its worst month since September 2011 and dropped around 7% in October.

- The Dow Jones fared slightly better as investors began to rotate away from the growth stocks and into more stable dividend payers. Regardless, it still had its worst month since 2016 dropping around 5%.

- The trouble was not just contained in the US. Chinese stocks continued to be hammered as the trade war escalated. Hong Kong's Hang Seng tumbled 10% and the Shanghai Composite lost an additional 8% on top of steep losses already this year.

- The question on everyone's mind is, "why did this happen?". There are a few reasons:
    - The President has blamed the Fed for raising interest rates, and although rising rates do play a factor, the market volatility was more likely linked to fears that US economic and profit growth may have peaked.
    - Amid these trade wars the global economy has gone from a synchronized recovery to a somewhat synchronized slowing.
    - Earnings also played a big factor. Although most earnings were good with 8 in 10 companies reporting better than expected numbers, investors feared this may be the peak and roughly three-quarters of stocks suffered a one-day decline after reporting earnings. This is typical of a late cycle and is one of the more worrying signs.

What Did We Do?

- Depending on the client's situation we made one of two changes:
    1. If you are retired and are actively relying on your portfolio for income, we sold some of the growth stocks in early October and held onto more cash. For many client's we recommended keeping 6-9 months of spending in cash starting at the beginning of October.

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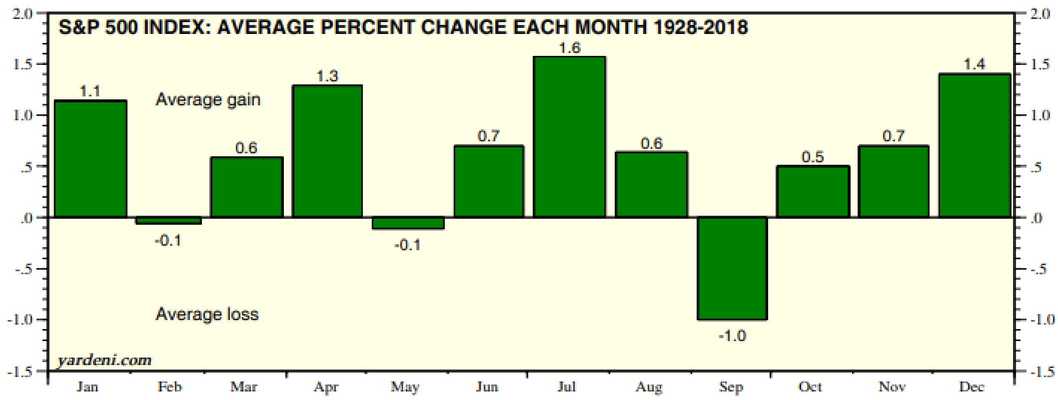
2. For clients who have much longer time horizons we do not recommend getting more conservative yet, rather we would recommend adjusting within your current allocations. For example, if you need to have 70% in stocks, keep 70% in stocks, but rotate the stocks you are utilizing. We have been overweight in growth/tech stocks this year but in early October took the opportunity to pull back and use those proceeds to increase our exposure to dividend paying, value stocks.

What's Next?

- October tends to be one of the most volatile months for markets and this one was no exception. However, it is followed by traditionally the strongest months of November, December, and January. The chart below shows average returns for each month since 1928 for the S&P 500 and you can clearly see that the last quarter tends to be one of the strongest.



*No change (0.00%) month of September 1979. Data are through September 2018.
Source: Standard & Poor's and Haver Analytics.

- Although past performance is not necessarily an indicator of future returns, we do believe that history may repeat itself this year although there are some significant headwinds that we are monitoring.

- The big item coming up in November will be the midterm elections. Many analysts seem split on what will happen to the markets depending on the outcome. Some believe that if the Democrats pull off a big upset it could lead to a market drop as corporate friendly legislation will have a much harder time being passed. However, others believe a Democrat win could lead the market higher as they hope some of the trade war and tariff rhetoric could be muted. This will be something we monitor very closely for our clients.

- Overall our view is still that the economy remains strong, corporate earnings were better than expected, and the stock market looks like a better value after the large drop in October. That being said, we do believe we are late in the cycle and very shortly some changes may need to be made to many investors' portfolios. It is something we will continue to monitor and alert our clients if something needs to be done.

If you have any questions or would like to discuss how any of this could impact your portfolio, please feel free to reach out directly to Alex at Alex@AnfieldWealth.com.